

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL Meeting of the Board of Trustees
July 27, 2010

VMERS Members present:

STEVEN JEFFREY, Chairperson, Employer Representative (term expiring July 1, 2014)
PETER AMONS, Vice-Chair, Employee Representative (term expiring July 1, 2012)
JEB SPAULDING, Ex-Officio, Vermont State Treasurer
AMY DOUGLAS, Employer Representative (term expiring July 1, 2012)

Board members absent:

JAMES QUINN, Employee Representative (term expiring July 1, 2014)

Also attending:

Cynthia Webster, Director of Retirement Policy and Outreach & Secretary to the Board
Donna Holden, VPIC Clerk
Steve Wisloski, Director of Investment and Debt Management
Dick Charlton, Kevin Kondry and Chris Levell, NEPC
Bill Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Assistant Attorney General
VPIC Members
VSERS Board Trustees
VSTRS Board Trustees
David Driscoll, via video conference call
Beth Pearce, Deputy Treasurer

CALL TO ORDER:

The Chairperson, Steve Jeffrey, called the Tuesday, July 27, 2010 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Joint Meeting of VPIC with Retirement Boards to Approve recommended Changes to the Actuarial Rate of Return Assumptions**

Along with the State's retirement boards and VPIC, Mr. Driscoll discussed the Buck Consultant proposal to adopt a "select-and-ultimate" rate of return strategy, which he said had not been used by a public pension plan to date, however, as detailed in his 7/27 e-mail he explained "*A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years followed by reversion to historical averages in subsequent years. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years. Use of a select-and-ultimate approach to setting rate-of-return assumptions in a pension valuation is specifically mentioned as a permissible approach to the task in the Actuarial Standards of Practice published by the Actuarial Standards Board. For this reason, it is also accepted as a method of specifying a rate-of-return assumption in valuations of public-sector pension plans under the present standards of the Governmental Accounting Standards Board (GASB). The mathematics of actuarial calculations involving select-and-ultimate interest rates are well-understood within the actuarial profession, and indeed under present federal pension funding regulations all private-sector defined benefit plans are*

effectively required to have their liabilities valued under a select-and-ultimate interest rate assumption for funding purposes.”

Mr. Driscoll also advised the preferable time to change an assumed rate of return would be when each system examines their system's experience study results, due over the next three years. He said only a compelling reason should preempt the five-year cycle established by the boards.

By consensus the attendees agreed their concerns were:

- The need to be responsive and realistic to reflect the current economic environment,
- That it was not a good time to make a decision that would create a larger arc for unattainable employer contribution, and
- Systems contained a mature workforce with nearly 40% of state employees eligible for retirement in the next 2-5 years, thereby creating a “future liability” shift to the retirement system as an immediate reality.

By consensus the attendees agreed the options were:

- Do nothing, and wait until each systems' experience study review over the next 1-3 years,
- Drop the rate to a defined number now, or
- Adopt the select-and-ultimate method

Attendees requested a table of arc curves based specific sequences, to be determined by the individual boards. Mr. Spaulding advised the Boards that in order for the actuary to implement any potential changes, a decision needed to be made within the next month.

ITEM 8: Adjournment

On motion of Amy Douglas seconded by Jeb Spaulding, the Board unanimously voted to adjourn at 10:13 a.m.

Next Meeting Date:

The next scheduled VSERS meeting is August 12, 2010 at 3:00 p.m. (in-house)

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board